

Message Text

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ACTION EUR-25

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TAGS: EFIN, FR

SUBJ: AN INCOMES POLICY FOR FRANCE?

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1. SUMMARY. MAJORITY POLITICIANS AS WELL AS THE OPPOSITION HAVE BEEN CRITICIZING INADEQUACY OF GOF ANTI-INFLATION POLICY.. SINCE QUESTION WAS RAISED BY PRESIDENT POMPIDIOU ON SEPTEMBER 27, THERE HAS BEEN MUCH DISCUSSION OF THE POSSIBILITY OF AN INCOMES POLICY IN FRANCE. IN HIS NOVEMBER 5 TELEVISION INTERVIEW, FINANCE MINISTER VALERY GISCARD D'ESTAING SEEMED TO COOL OFF THE DEBATE SOMEWHAT, NOTING THE NEED TO AWAIT RESULTS OF BOTH OUTSIDE DEVELOPMENTS AND DOMESTIC STEPS ALREADY TAKEN. PRIVATELY, HE HAS STATED THERE IS NO QUESTION OF IMPOSING AN INCOMES POLICY. THE EMBASSY NOTED THAT ELABORATE PRICE CONTROL SYSTEM ALREADY EXISTS, AND COULD BE SUPPLEMENTED BY OTHER MEASURES. WAGES AND OTHER INCOMES ARE NOT SUBJECT TO REGULATION AND WE BELIEVE THE GOVERNMENT WOULD NOT BE WILLING TO RISK MAJOR LOAOR UNREST BY IMPOSING ANY STIFF CONTROLS NOW.

GISCARD SEEMS CONFIDENT HE WILL SOLVE INFLATION PROBLEM WITHOUT
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RECOURSE TO UNWELCOME STEP OF INCOMES POLICY.

SOME CRITICISM BY MAJORITY FIGURES MAY BE SEEN AS EFFORT TO KEEP INFLATION FROM BECOMING EXCLUSIVE PRESERVE OF THE OPPOSITION WHILE MAJORITY BUYS TIME FOR HOPED-FOR REVERSAL OF TREND. END SUMMARY

2. BEGIN UNCLASSIFIED. EVER SINCE PRESIDENT POMPIDIOU FIRST RAISED QUESTION AT PRESS CONFERENCE OF SEPTEMBER 27, REF A) GOVERNMENT AND MAJORITY PERSONALITIES HAVE BEEN DISCUSSING POSSIBILITY OF AN INCOMES POLICY AS UNWELCOME BUT POSSIBLY NECESSARY MEANS OF COMBATTING INFLATION IN FRANCE.

3. SIGNALS GIVEN HAVE BEEN DIVERSE, BOTH AS TO NEED FOR SUCH MEASURES, AND THEIR TIMMING. FORMER PRIME MINISTER DEBRE HAS CRITICIZED THE GOVERNMENT, AND SPECIFICALLY FINANCE MINISTER GISCARD D'ESTAING, FOR FAILURE TO TAKE STRONG AND IMMEDIATE STEPS AGAINST INFLATION. UDR SECRETARY-GENERAL SANGUINETTI HAS ECHOED SIMILAR SENTIMENTS, CALLING FOR "DEEDS, NOT WORDS", IN FIGHT AGAINST INFLATION, ON SATURDAY, NOVEMBER 3, WHEN PRIME MINISTER MESSMER DISCUSSED AND HENCE PRICES ON CERTAIN CONSUMER STAPLES (BEEF, FRUITS AND VEGETABLES, BREAD, SOME CHEESES) AND SHOES, HE NOTED THAT THESE WERE NOT ALL THE "IMPORTANT MEASURES WHICH WE SHALL PROBABLY HAVE TO TAKE." THE EMBASSY HAS SUGGESTED THAT PRESIDENT POMPIDIOU'S CALL OF EUROPEAN EFFORTS AGAINST INFLATION MIGHT BE A WAY OF PROVIDING A EUROPEAN COVER FOR NEW DEPARTURES AT HOME (REF B). AS FOR TIMING, THE FINANCE MINISTER NOTED IN HIS ANNUAL BUDGET MESSAGE THAT DECEMBER'S PRICE RESULTS WOULD BE NECESSARY FOR A DECISION, IMPLYING IT COULD NOT BE TAKEN UNTIL THE NEW YEAR. AT OTHER TIMES, HE HAS SUGGESTED THE POSSIBILITY OF AN EARLIER DECISION.

4. IN A TELEVISION INTERVIEW OF NOVEMBER 5 GISCARD SEEMED TO PLACE THE QUESTION IN A LESS URGENT PERSPECTIVE. HE NOTED THAT A COOLING OFF WAS ALREADY UNDERWAY IN THE UNITED STATES AND IN WEST GERMANY, AND THAT THE EFFECTS ON FRANCE, AS YET UNCLEAR, WOULD BE IMPORTANT TO DETERMINING GOV POLICIES. HE ALSO NOTED THAT GOVERNMENT HAD BEEN USING CLASSICAL MONETARY AND FISCAL MEASURES AGAINST INFLATION AND THAT MORE TIME WAS REQUIRED TO SEE WHETHER THEY WERE SUFFICIENT. ASKED ABOUT MESSMER'S REMARKS, HE SAID THEY MEAN ONLY THAT GOVERNMENT WAS READY TO ACT, AND THAT THERE WAS NO DEADLINE OR TIMING FOR ANY DECISIONS. LIMITED OFFICIAL USE

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IN HIS RANK ORDER OF PROBLEMS HE IS FACING, INFLATION CAME FOURTH AFTER FRANCE'S FOREIGN BALANCE (HE NOTED HIGHER PETROLEUM COSTS WOULD WIPE OUT FRANCE'S TRADE SURPLUS AND SUGGESTED A CUTBACK IN FRANCE'S FOREIGN INVESTMENTS MAY BE NECESSARY), GROWTH AND EMPLOYMENT. AS FOR THE INCOMES POLICY ITSELF, HE REMARKED THAT A MODIFICATION OF FRENCH "BEHAVIOUR" (COMPORTMENT) COULD HEAD-OFF THE NEED FOR ANY SUCH POLICY. WERE IT TO BE IMPOSED, HE INDICATED THAT IT WOULD BE A MATTER

OF FIXING NORMS FOR INCREASE IN PRICES AND INCOMES, RATHER THAN BLOCKING THEM, AND SUGGESTED THAT ENFORCEMENT WOULD BE THROUGH TAX AND CREDIT MEASURES, RATHER THAN FINES, "INCONCEIVABLE IN FRANCE." SPEAKING OF THE DIFFICULTIES OF IMPOSING AN INCOME POLICY, HE NOTED IT COULD BE IMPOSED ONLY FOR A LIMITED TIME, SUCH AS ONE YEAR, AND THAT THERE WAS A DANGER OF A REBOUND WHEN IT WAS REMOVED.

5. COMMENT: THE PARAMETERS - FRANCE HAS ALREADY AN ELABORATE PRICE CONTROL MECHANISM, INCLUDING OUTRIGHT PRICE FIXING (BREAD, MILK), PROGRAMMATION DES PRIX (GUIDELINES ON PRICE INCREASES IN MANUFACTURED GOODS), AND THE NEWLY ANNOUNCED MEASURES ON STAPLES. THE EFFECTIVENESS OF MOST OF THESE HAS BEEN QUESTIONABLE AND WHILE NEW MEASURES ARE POSSIBLE, THESE WOULD NOT NECESSARILY REPRESENT ANY QUALITATIVE CHANGE. OTHER POLICY MEASURES WHICH COULD AFFECT PRICE WOULD INCLUDE A NEW REDUCTION IN RATES OF THE VALUE ADDED TAX (TVA), WHICH GISCARD DID NOT FORESEE, ENLARGING IMPORT QUOTAS ON SUCH PROTECTED ITEMS AS TEXTILES. ON THE OTHER HAND, THERE IS AT PRESENT NO CONTROL ON WAGES, OR OTHER CATEGORIES ON INCOME. END UNCLASSIFIED.

6. BEGIN LIMITED OFFICIAL USE. THE POSSIBILITIES - THE EMBASSY HAS LEARNED THAT GISCARD HAS PRIVATELY TOLD A GROUP OF ECONOMIC JOURNALISTS ON FRIDAY, NOVEMBER 2, THAT THERE IS NO QUESTION OF AN INCOMES POLICY, AND ALL THE GOVERNMENT'S ACTIONS AND STATEMENTS SHOULD BE SEEN AS EFFORTS TO BUY ELSEWHERE HAVE THEIR JOPEDEFFECTS ON FRANCE. CLEARLY, IF AN INCOMES POLICY MEANS STIFF CONTROLS OVER WAGES AND OTHER INCOMES, WE DO NOT EXPECT ONE. THE PRIORITY OF GROWTH AND EMPLOYMENT OVER PRICE STABILITY IS HARDLY NEW TO GISCARD'S TELEVISION REMARKS - IT IS FIRM AND OFTEN REPEATED GOVERNMENT POLICY GISCARD INDICATED TO HIS INTERLOCUTORS HIS FEAR THAT WAGE CONTROLS COULD PRODUCE A GENERAL STRIKE. SUCH AN EVENT - AND THE UNITY OF LIMITED OFFICIAL USE

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THE LABOR MOVEMENT IT IMPLIES - IS THE LEAST THE THING THE GOVERNMENT WANTS. EVEN LIMITED ACTION ON THE INCOMES SIDE SEEMS UNLIKELY, BUT THE ESTABLISHMENT OF GUIDELINES RE TOLERABLE INCREASES IN WAGES AND OTHER FORMS OF REMUNERATION CANNOT BE RULED OUT ALTOGETHER. AS SUGGESTED, FURTHER ACTION ON THE PRICE SIDE IS FAR MORE LIKELY.

7. THE FUTURE - GISCARD APPEARS OPTIMISTIC. IN PUBLISHED PORTIONS OF HIS NOVEMBER 2 REMARKS, HE EVEN SUGGESTED THAT NEXT YEAR THE PRESS MIGHT HAVE TO SHIFT ITS ATTENTION FROM INFLATION TO PROBLEMS OF EMPLOYMENT WHICH COULD RESULT FROM AN ANTICIPATED ECONOMIC SLOWDOWN IN THE SECOND HALF OF 1974. THE EMBASSY IS LESS SURE. IN HIS BUDGETARY SPEECH, GISCARD ATTRIBUTED TWO-THIRDS OF FRANCE'S INFLATION PROBLEM TO EXTERNAL CAUSES, MAINLY THE RISE IN PRICES OF PRIMARY PRODUCTS. IT

IS THE LEVELING OFF OF THIS TREND (EXCEPT FO PETROLEUM)
AND A SLOWDOWN IN WORLD ECONOMIC GROWTH, THAT HE SEEMS TO
BE COUNTING ON. WE BELEIVE DOMESTIC CAUSES ARE A
MORE IMPORTANT CONTRIBUTION THAN THE GOF ESTIMATES THEM TO BE AND
IN THIS REGARD WE NOTE THAT WAGES IN 1973 HAVE BEEN RISING
AT A RATE OF CLOSE TO 14 PERCENT A YEAR AND SHORTAGES OF
SKILLED LABOR ARE REPORTED IN MANY SECTORS.

8. SEEN IN THE LIGHT OF CONCERTED GOVERNMENT POLICY OF
BUYING TIME, SANGUINETTI'S STATEMENTS MIGHT BE IN PART AN
EFFORT TO TAKE SOME OF THE FIELD OF ECONOMIC SRITICISM
AWAY FROM THE OPPOSITION, AS WELL AS AN ASPECT OF THE CONTINUED
UDR SNIPING AT THE FINANCE MINISTER.
GISCARD HIMSELF REFUSES TO BE PERTURBED BY ATTACKS ON
HIS POLICY. HE NOTED ON TELEVISION THAT HE IS MORE CONCERNED
WITH RESULTS THAN WITH DEBATE. HE SAID ALSO THAT HE EXPECTS
TO REMAIN IN OFFICE TO SEE INFLATION DEFEATED. MOREOVER,
PRIME MINISTER MESSMER REPORTEDLY TOOK SANGUINETTI TO TASK
FOR HIS ATTACK ON GICARD AND EXTRACTED A PROMISE FROM THE
UDR LEADER THAT HE WOULD SOFT-PEDAL CRITICISM IN THE FUTURE.
IRWIN

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